

11 November 2016

Transportation & Logistics

BEM**Bangkok Expressway and Metro****Current
BUY****Previous
BUY****Close
7.75****2017 TP
12.00****Exp Return
+ 54.8%****Anti-corrupt
-****CGR 2016
4****Consolidated earnings**

BT (mn)	2014	2015	2016E	2017E
Normalized earnings	2,208	1,352	2,812	3,380
Net profit	2,745	2,650	2,812	3,380
EPS (Bt)- Normalized	0.08	0.09	0.18	0.22
EPS (Bt)	0.18	0.17	0.18	0.22
% growth Y-Y	-37.3	-3.7	6.1	20.2
Dividend (Bt)	0.05	0.13	0.09	0.11
BV/share (Bt)	0.92	1.91	2.00	2.11
EV/EBITDA (x)	34.6	22.4	18.7	15.5
PER (x)	98.9	87.6	42.1	35.05
PER (x) - normalized	79.6	44.7	42.13	35.05
PBV (x)	8.43	4.07	3.88	3.67
Dividend yield (%)	0.60	1.63	2.00	1.43
YE No. of shares (million)	15,285	15,285	15,285	15,285
No. of share - full dilution	15,285	15,285	15,285	15,285
Par (Bt)	1.00	1.00	1.00	1.00

Source: Company data, FSS estimates

3Q16 profit beats both our estimate and street forecast**3Q16 normalized earnings up 11% Q-Q and 184% Y-Y**

BEM reports profits of Bt808mn in 3Q16. At net profit level, it jumps 60% Q-Q, but implies a sharp loss of 46.8% Y-Y because the company booked large extra gain of about Bt1.2bn from sale of its investment in 3Q15. Excluding the extra item, normalized earnings increase 11% Q-Q and surge 184% Y-Y, beating both our estimate and street forecast, thanks to revenue from its mass transit business which jump 56.8% Q-Q to Bt915.8mn after the company began to realize O&M revenue from the Purple Line, while the ridership of the Blue Line increased 10% Q-Q to 76,313 trips per day. Moreover, BEM benefited from lower funding cost after it has refinanced its debts through its issuance of debenture in 2Q16. In the July-September quarter, its expressway business improved thanks to a rise in traffic and the launch of Sri-Rat Outer Ring Road Expressway in August. Given that, revenues from operation soared 17.6% Q-Q, while gross margin widened to 41.4% from 39.6% a year ago.

Revenue share from extension of Blue Line

Currently, BEM is negotiating revenue share for the current Blue Line and its extension as one network. Lately, the MRTA has extended the negotiation period by another 30 days, in line with an order under Section 44. In this regard, we expect the talk to complete in December. Moreover, we believe BEM will be able to begin service on certain stations within 2017. Finally, there will be a solution to the one connection between Bangsue and Taopoon only after the talks on the Blue Line end.

Cut 2016E net profit, but maintain 2017 estimate

Looking ahead, we expect both traffic and ridership to ease in 4Q16 because there are quite a number of holidays during the quarter. With that, we have cut our 2016E net profit by 12% to Bt2.8bn (+7% Y-Y). However, our 2017 estimate has upside from BEM's partnership with CK to bid for the Yellow and Pink Lines, whose results will be out in 1Q17. Furthermore, the company plans to participate in auction for the Orange Line in 2017. We maintain our 2017 TP of Bt12 and retain our BUY rating on BEM.

3Q16 Earnings Results						Comment
(Bt mn)	3Q16	2Q16	%Q-Q	3Q15	%Y-Y	
Revenues	3,431	2,919	17.6	2,953	16.2	<ul style="list-style-type: none"> In 3Q16, revenues jump 17.6% Q-Q and 16.2% Y-Y to Bt3.4bn. Such sharp gains are made possible by O&M revenue from the Purple Line, a rise in the Blue Line's ridership, an increase in traffic and the launch of Sri-Rat Outer Ring Road Expressway.
Operating Cost	2,009	1,707	17.7	1,781	12.8	
Gross profit	1,422	1,212	17.3	1,172	21.3	<ul style="list-style-type: none"> Normalized earnings are higher than expected. It increases 11% Q-Q and surges 184% Y-Y thanks to a rise in O&M revenue from the Purple Line and a decline in interest expense following the refinance.
SG&A	290	242	19.5	238	21.3	
Interest expense	296	487	-39.1	358	-17.3	
Normalized earnings	808	728	11	284	184.7	
Net profit	808	504	60.1	1,519	-46.8	
Gross margin (%)	41.4	41.5	-0.1	39.7	1.8	
Norm earnings margin (%)	23.5	17.3	6.3	9.6	13.9	
Net profit margin (%)	23.5	17.3	6.3	51.4	-27.9	

Source: Company data

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Ladprao

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Unit 1106, Phaholyothin Road,
Chatuchak, Bangkok

Sriracha

135/99 (G fl.) Sukumvit Road,
Tumbon Sriracha
Aumphoe Sriracha, Chonburi

Chiangmai 2

310 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Samutsakorn

1045/16-17 Vichienchodok,
Tumbon Mhachai, Aumphoe
Meungsamutsakorn, Samutsakorn

Hatyai 3

200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2rd Floor,
Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Thaisummit Tower

1768 Thaisammit Tower Building,
5th, 31th Fl., New Petchburi Road,
Bangkapi, Huaykwang,
Bangkok

Bangna

1093 Tower 1 Office, 19th Floor,
Room 1093/105 Moo 12,
Bangna-Trad Road, Bangna,
Bangkok

Prachachuen

105/1 B Building, 4th Floor,
Thessabansongkhrao Road,
Ladyao, Jutajak, Bangkok

Khonkaen 1

311/16 2nd Floor, Klangmeung
Road, Tumbon Nai Meung,
Aumphoe Meung,
Khonkaen

Chiangmai 3

Maliplace Building 32/4 moo 2
1 fl., B1-1, B1-2 room
Tumbon Maehia
Chiangmai

Nakornpathom

28/16-17 Yingpao Road,
Tumbon Sanamjan,
Aumphoe Muang, Nakornpathom

Krabi

223/20 Mharaj Road,
Tumbon Paknam,
Aumphoe Meung, Krabi

Alma Link

9th, 14th, 15th Fl.,
Alma Link Building 25
Soi Chidlom, Ploenchit, Lumpini,
Patumwan, Bangkok

Sindhorn 1

130-132 Sindhorn Building 1,
2rd Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Rang sit

1/832 Phaholyothin 60
Kukod, Lumlookka
Pratumtanee

Khonkaen 3

311/1
Khang Meung Road,
Tumbon Nai Meung,
Aumphoe Meung Khonkaen,
Khonkaen

Chiangrai

353/15 Moo 4,
Tumbon Rimkok
Aumphoe Muang, Cheangrai

Phuket

22/18 Vanish Plaza Shopping
Mall, Luangporwatchalong Road,
Tumbon Talad Yai,

Trang

59/28 Huaiyod Road,
Tumbon Thaptieng,
Aumphoe Meungtrang, Trang

Amarin Tower

496-502 Amarin Tower
20th Floor, Pleonchit,
Lumpini, Pathumwan,
Bangkok

Kian Gwan (Sindhorn 2)

140/1 Kian Gwan House II
18th Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Thaisummit Tower

1768 Thaisammit Tower Building,
2nd Floor, New Petchburi Road
Bangkapi, Huaykwang,
Bangkok

Udonthani

104/6, 2 fl., ICBC Bank Tower
Udon Dusadee Road,
Tumbon Mak Khaeng,
Aumphoe Muang Udon Thani,
Udon Thani

Measai

119 Moo 10,
Tumbon Maesai,
Aumphoe Muang, Cheangrai

Hatyai 1

200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2rd Floor,
Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Suratthani

173/83-84 Moo 1
Watpho-Bangyai Road.,
Tumbon Makamtia,
Aumphoe Mueang, Suratthani

Central Pinklao 1

7/129-221 Central Pinklao Office
Building, Room 1404, 14th Fl.,
Baromratchonnanee Road,
Arunamarin, Bangkoknoi, Bangkok

Sindhorn 3

130-132 Sindhorn Building 3,
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Bangkok

Rattanatibet

68/127 Moo 8 Rattanatibet Road,
Tumbon Banggrasor,
Aumphoe Muang,
Nonthaburi

Chiangmai 1

308 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Nakornratchasima

1242/2 A3 room, 7 fl.,
The Mall Ratchasima
Mittraphap rood Tumbon Nai Muang
Aumphoe Muang Nakornratchasima
Nakornratchasima

Hatyai 2

106 Prachathipat Road,
Aumphoe Hadyai, Songkhla

Pattane

300/69-70 Moo 4,
Tumbon Rusamirae,
Aumphoe Meung, Pattane

Recommendation Definitions

BUY	The latest close is below our target price and the estimated upside is 10% or more.
HOLD	The latest close is below our target price and the estimated upside is 0-10%.
SELL	The latest close is above our target price.
TRADING BUY	The latest close is above our target price but the price is expected to be driven by short-term positive factors
OVERWEIGHT	The estimated return is higher than the market average.
NEUTRAL	The estimated return is the same as the market average.
UNDERWEIGHT	The estimated return is lower than the market average






Note: The expected return may change as market risks increase or decline.

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Thai Institute of Directors Association (IOD) - Corporate Governance Report Rating 2015

Score Range	Rating	Description
100-90		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	no logo given	n/a

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Anti-corruption Progress Indicator

Level 5	Extended	Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases
Level 4	Certified	Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)
Level 3	Established	Carrying out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes
	- Level 3A	Established by Declaration of Intent
	- Level 3B	Established by Internal Commitment and Policy
Level 2	Declared	Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives
Level 1	Committed	Organization's statement or board's resolution to work against corruption and to be in compliance with all relevant laws

Anti-corruption Progress Indicator from Thaipat Institute (as of November 6, 2015)